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Despite cuts, Medicare Advantage enrollment, insurers' stocks, still surging

By [Paul Demko](#) | April 5, 2014



Insurers want healthy seniors enrolling in their Advantage plans. (Photo taken at Leon Medical Centers' Healthy Living Center in Miami.)

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EmblemHealth's Medicare Advantage HMO became the first Advantage plan in New York City to achieve a coveted four-star rating from the CMS.

That was the result of four years of work to improve the HMO's quality measures, said John Kennedy, the for-profit insurer's vice president for direct-to-consumer sales. Now, if EmblemHealth officials notice that an enrollee with diabetes is overdue for blood tests, they'll reach out to the member and doctor to encourage them to schedule an appointment. "I think (members)

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sense that the health plan is really concerned about their quality of care,” Kennedy said.

The four-star rating (on a scale of 1–5) allows EmblemHealth to receive bonus payments from the CMS at a time of heightened rate pressure on **Medicare Advantage** plans. The bonuses typically amount to an increase of a couple of percentage points—\$281 per enrollee in 2012, according to the Kaiser Family Foundation. That amount can make the difference between profit and loss in a narrow-margin business.

Despite widespread projections that **Medicare's** reduced payments to Advantage plans mandated by the Patient Protection and Affordable Care Act would lead to enrollment reductions, private Medicare plans are booming. Currently, there are nearly 15.9 million seniors enrolled in Advantage plans, compared with 11.4 million in 2010, an increase of almost 40%. Nearly one-third of all Medicare beneficiaries now are enrolled in Advantage plans, with roughly two-thirds of them opting for HMO products.

The Congressional Budget Office projects Advantage enrollment will hit 21 million by 2023.

MH Takeaways

Defying predictions, Medicare Advantage enrollment continues to grow rapidly, benefiting the nation's large insurers most.

The growing significance of Advantage revenues helps explain why the insurance industry has fought so fiercely against proposed cuts to the program. In February, the CMS released proposed payment policies for 2015, with most analysts projecting the updated policies would lead to a 3% to 5% cut to health plans if enacted. The final 2015 payment policies will be released on April 7.

Despite the threat of cuts, insurers see Medicare Advantage as a very desirable business, given that the average Medicare payment per plan beneficiary is roughly



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\$10,000 a year, much higher than premiums in the under-65 market. Last year, the federal government spent \$146 billion on the program, according to the **Medicare Payment Advisory Commission**. Per-beneficiary spending on Advantage enrollees remains 6% higher than in the traditional Medicare fee-for-service program.

The market is mostly dominated by large, publicly traded companies, though not-for-profit **Kaiser Permanente** is one of the leaders. **Humana** and **UnitedHealth Group** had roughly 6 million Advantage customers combined at the close of open enrollment for 2014.

More than 80% of Medicare beneficiaries around the country had access to a Humana Medicare plan, while nearly 70% had access to a UnitedHealth plan, according to the Kaiser Family Foundation. **Aetna**, **Cigna** and **WellPoint** combined have more than 2 million additional Advantage enrollees. Together, those five plans control more than half the Advantage market, while Kaiser Permanente has roughly 1.2 million Medicare enrollees. No other plan has more than 400,000 customers.

Many of these key players have boosted their market share in recent years through acquisitions. Humana President and CEO Bruce Broussard expected the trend toward consolidation to continue. "The barriers to entry are going up," Broussard during an appearance last month at the Barclays Global Healthcare Conference. "I think the smaller plans will continue to be at a disadvantage over time."

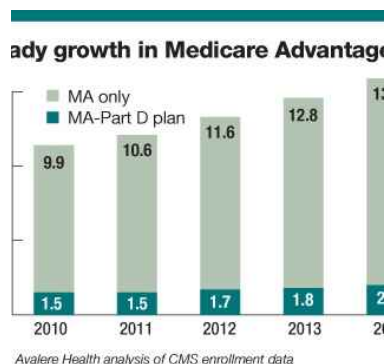
Humana's business is dominated by Medicare Advantage. In 2013, the company reported \$27 billion in payments from the program, or two-thirds of its total revenues. That was up slightly from 2012, when 63.5% of revenues came from the Advantage program.

America's Health Insurance Plans has waged a vigorous lobbying and advertising campaign warning that the ACA-driven cuts will force plans to reduce benefits and hike out-of-pocket costs, including premiums and copayments. That's potent stuff in a congressional election year when seniors are expected to make up a disproportionate share of voters.

"When you introduce premiums to beneficiaries who are used to zero dollar premium products, or increase premiums in general, there are negative implications. Many Medicare beneficiaries are on fixed incomes, and any changes in premiums impact them," said Fran Soistman, Aetna's executive vice president of government services. "So many of these Medicare beneficiaries are on fixed incomes."

So far, though, there's little evidence that premiums have spiked as a result of spending reductions included in the ACA. The average monthly Advantage premium for 2014 is \$49, according to the Kaiser Family Foundation, down from \$51 in 2013. But caps on out-of-pocket costs have increased by more than 10% for 2014, to an average of \$4,797.

To keep costs down, Advantage plans have moved to narrow their provider



networks. UnitedHealth sparked an uproar among seniors and physicians last fall when it sharply pared back its networks, which caused some customers to lose access to their doctors. That led to lawsuits in Connecticut and New York challenging the insurer's authority to terminate doctors without sufficient notice.

The payment reductions included in the ACA were designed to bring the per-beneficiary cost of the program in line with traditional Medicare and to help fund premium subsidies for consumers in the Obamacare insurance exchanges. In 2009, Medicare spent about 14% more on Advantage enrollees, according to MedPAC. It's projected that Advantage members still will cost 2% more in 2017, according to the Commonwealth Fund.

At the time of the ACA's passage, the CBO projected payment reductions would result in 7 million fewer seniors enrolling in Advantage plans by 2019. But the opposite happened. Demographics explain part of the big enrollment increase. Roughly 10,000 baby boomers are becoming eligible for Medicare every day, and that generation is accustomed to managed-care health plans with limited provider networks. Roughly half of all new Medicare beneficiaries are opting for Advantage plans.

Humana's 2014 enrollment growth was significantly greater than anticipated. The Louisville, Ky.-based company saw its Advantage membership increase by roughly 15% over 2013, to nearly 2.8 million, according to research and consulting firm Avalere Health. That was more than three times the growth rate for UnitedHealth, and it represented roughly a quarter of all new private Medicare enrollees. Humana declined to comment for this article.

But some analysts warn that growth isn't necessarily a sign of financial strength. In February, Citi Research downgraded Humana's stock to sell status. Its analysts cautioned that Humana seemed to have picked up many higher-risk, costlier beneficiaries in the Florida market who had been shed by UnitedHealth in its efforts to control costs by shrinking its networks. "Growing much faster than the rest of the industry rarely ends well in managed care," the analysts said.

UnitedHealth's decision to tighten its networks is a likely reason for Humana's enrollment boom, said Jay Wolfson, a professor at the University of South Florida. He agreed that Humana likely picked up many UnitedHealth refugees in Florida. "Many (seniors) decided that they wanted to change, either to remain with their physician or because they were angry with UnitedHealth and wanted out," Wolfson said.

Aetna's business doubles

Medicare Advantage insurers, 2013-14

	2013 ENROLLMENT	2014 ENROLLMENT	%
Health Group	3,037,520	3,167,629	
Aetna	2,422,958	2,797,121	
Foundation Health Plan	1,149,866	1,206,149	
UnitedHealth	627,753	1,091,408	
WellPoint	567,259	663,693	
Humana	442,355	455,744	
Cross and Blue Shield of Michigan	298,163	357,152	
Centimark Health	344,279	341,369	
WellCare Health Plans	250,983	339,818	
Net	231,389	251,182	

Avalere Health analysis of CMS enrollment data.

Aetna, Cigna and WellPoint's respective acquisitions have also strengthened their presence in the Advantage market. Aetna's Advantage business has more than doubled since its \$5.7 billion acquisition of Coventry Health Care was completed last year. The Hartford, Conn.-based company now has more than 1 million Advantage enrollees.

Cigna completed its acquisition of HealthSpring for \$3.8 billion in 2012, adding 340,000 Advantage enrollees. That has led to a tenfold increase in the

Bloomfield Conn.-based company's Medicare business in the past three years. WellPoint's 2011 acquisition of CareMore Health Group bolstered its Advantage business in California, Arizona and Nevada, adding more than 50,000 customers.

In the next tier of competitors, WellCare Health Plans boosted enrollment by 35.4% in 2014. In January, the Tampa, Fla.-based company completed acquisition of Windsor Health Group, which added Advantage customers in four states. Last October, WellCare announced it was expanding plan offerings to Medicare beneficiaries in Arizona, California and Kentucky.

Some hospital systems also are eyeing the Medicare Advantage market. New York City's Mount Sinai Hospital recently announced that it will launch its own Advantage plan next year, and Wolfson said other providers are weighing similar moves.

But critics say that few hospital systems have the insurance expertise to succeed in running their own Advantage plans, and that they haven't done well with such endeavors in the past.

To boost payments, health plans have worked on improving their star ratings. Starting in 2015, only plans that receive at least four stars will be eligible for CMS bonuses. This year, 38% of Advantage plans received at least four stars, up from 28% in 2013, according to an analysis by HealthPocket, an online insurance broker. More than a third of Humana's Advantage plans received at least four stars in 2014, compared with 20% for UnitedHealth.

Health plans are warning of dire consequences if the CMS implements its proposed cuts when it announces its final 2015 rates on April 7. But the credibility of AHIP on the issue has been weakened by its previous inaccurate predictions about how rate reductions would undermine the Advantage program.

Further undercutting those warnings, investors have reacted bullishly since the CMS announced its proposed payment policy Feb. 21. The five publicly traded companies with the largest number of Advantage enrollees have seen their stock prices rise by at least 6% since then.

But Sheryl Skolnick, a managing director with CRT Capital Group who tracks insurance stocks, said she doesn't think the upbeat investor reaction necessarily shows that insurers are crying wolf. "It's almost as if Wall Street has willfully disregarded all of the warnings, which is never a smart thing to do," she said.

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